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Special

MARGINS AND COSTS

Studies

Marketing Research Report No. 167

**(Reprinted from Hearings (Part 2) Before the Subcommittee of the
Committee on Appropriations, House of Representatives,
Eighty-Fifth Congress, First Session)**

U. S. DEPARTMENT OF AGRICULTURE

Agricultural Marketing Service

Marketing Research Division

PREFACE

The total food marketing bill rose from 9 billion dollars in 1940 to 34 billion dollars in 1956. This uninterrupted annual increase can be accounted for largely in terms of (1) the larger volume of food required to feed 38 million more people; (2) a persistent rise in the prices of all services and materials; and (3) an increase in the built-in services sold with food.

Although retail food prices have remained fairly stable during the last two years, there is a growing concern about the rise in marketing costs, the net effect of which is to lower prices to farmers. We find, therefore, that farmers and consumers are asking whether prevailing processing and marketing charges are a realistic reflection of the costs of performing the numerous services needed to move products from the farm to the consumer. Because of this deep-rooted interest in the cost of food, Congress in 1955 directed the Department of Agriculture to make a number of special studies of the margin or spread between prices farmers receive and consumers pay for food. A number of these special reports have been published and they have helped to explain the relationships of marketing services to marketing costs.

The highlights of some of the published reports were submitted as a part of the testimony relating to the 1958 appropriation hearings of the Department of Agriculture, before the Subcommittee of the Committee on Appropriations, House of Representatives, Eighty-fifth Congress, First Session. This special report follows.

Issued April 1957

Special

MARGINS AND COSTS

Studies

MARKETING COSTS FOR FOOD

The farmer's share of the consumer's retail food dollar dropped rather steadily from a record high of 53 percent in 1945 to 40 percent in 1956. It has declined in all but 2 years since 1945. The farmer's share in 1956 averaged the same as in 1940, immediately preceding the rapid rise during World War II (fig. 1).

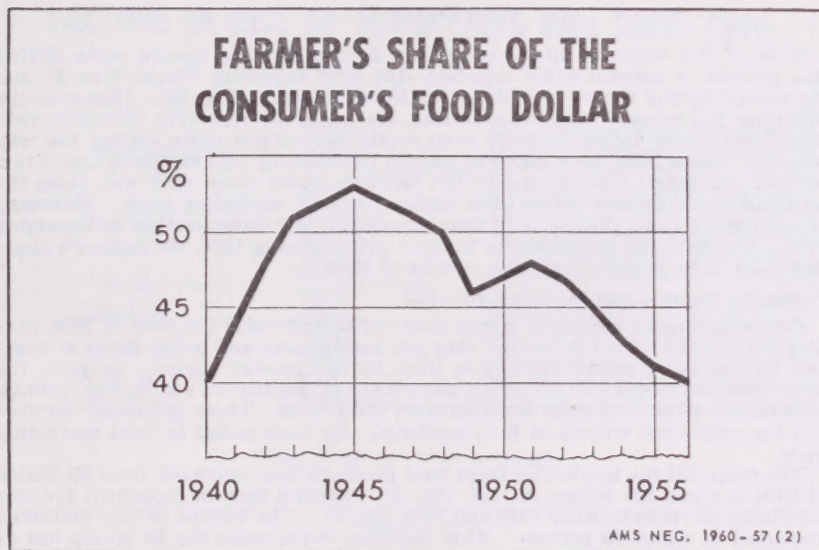


FIGURE 1.

The increased spread between retail-store prices and farm prices of food products—the marketing margin—is the principal factor causing the decline in the farmer's share since 1945. As shown in figure 2, the marketing margin¹

¹ As used in this report, the marketing margin is the difference between retail-store cost of a typical family market basket of farm food products and payment received by farmers for an equivalent quantity of farm produce (farm value). The marketing margin includes all charges for processing and distributing farm products after they are sold by farmers. The market basket contains the average quantities of farm-produced food products purchased for consumption at home by urban wage-earner and clerical-worker families in 1952.

went up in all but 1 of the 11 years and increased by more than 80 percent. The farm value rose in only 4 years. In 1956 it averaged about 10 percent higher than in 1945.

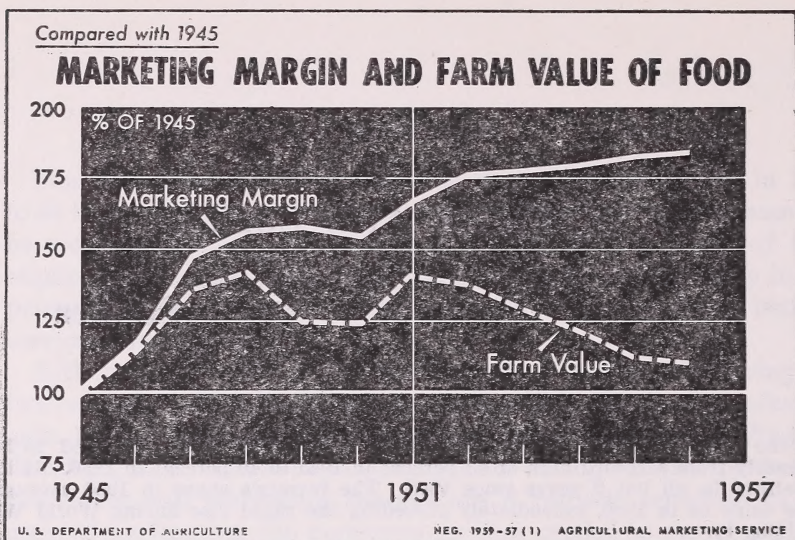


FIGURE 2.

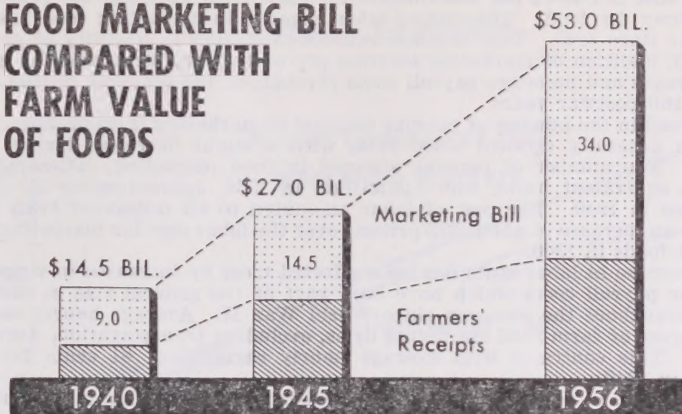
Most of the widening in price spreads during the last decade came during two periods of general price inflation—the first following World War II and the second during the early part of the Korean conflict (fig. 2). (Some of the widening following World War II was the result of removing subsidies that were paid to marketing firms to keep retail food prices down during the war period.) Since 1952, the marketing margin has risen by an average of only 1 to 2 percent per year. The decline in the farmer's share since 1952 was more the result of lower farmer prices than higher per unit marketing costs. Measured on a monthly basis, the farmer's share reached a low of 38 percent in December 1955. But with the improvement in farm prices during 1956, the farmer's share increased to 41 percent in several months of 1956.

Consumer incomes and the marketing bill

Consumers spent a slightly larger share of their income for food in 1956 than they did in 1940. This is because they are eating more and better foods at home and buying more restaurant meals than in the prewar period. In part, the proportion of income spent for food has stayed up because of consumers' willingness to buy more and more services with their food. These increased services and the additional volume of food marketed also have added to total marketing costs.

The total bill for marketing farm food products has increased from \$9 billion in 1940 to about \$34 billion in 1956 (fig. 3). Several factors accounted for this \$25 billion increase between 1940 and 1956 (fig. 4). The volume of food marketed increased by about 50 percent. This increase would raise the \$9 billion bill at the 1940 cost level to about \$13.5 billion.

FOOD MARKETING BILL COMPARED WITH FARM VALUE OF FOODS



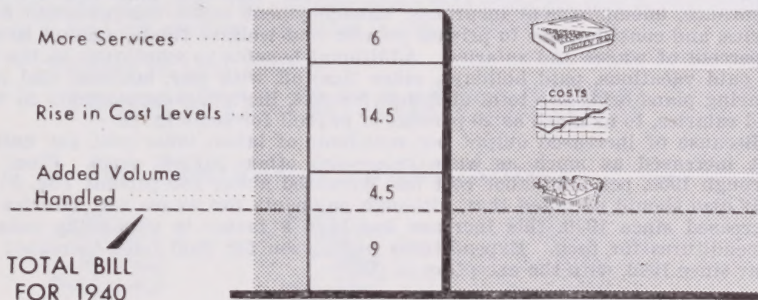
AMS NEG. 1970-57-621

FIGURE 3.

FACTORS IN RISE OF MARKETING BILL SINCE 1940

Increase owing to:

\$34 BIL. in 1956



Based on existing data subject to adjustment.

AMS NEG. 1971-87 (2)

FIGURE 4.

At the 1956 cost level, the bill for marketing this 1956 volume of food would amount to \$28 billion. With the general rise in all prices and costs since 1940, charges for performing marketing operations have increased by nearly 110 percent (as measured by the marketing margins).

The remaining \$6 billion of the increase represents payments consumers are making for new marketing services which have been added since 1940. The marketing system is providing more services—packaging, processing, more convenience foods, more meals eaten out—that add to the labor and cost required to move foods from the farm to consumers. However, not all processing and packaging necessarily add to the cost of food. In some cases, reduction in waste and spoilage and the higher costs of shipping perishable foods may offset the extra cost of processing and packaging.

Labor

Labor cost is one of the most important cost items affecting the prices paid by consumer for food. The cost of labor engaged in marketing food has risen each year since 1940. This increase reflects expansion in quantity of products marketed, addition of marketing services per unit of products, and the general rise in wages and nonwage payroll costs throughout the economy during World War II and postwar years.

The trend in the number of persons engaged in marketing farm-produced foods has been generally upward since 1940, with a slight decrease during World War II. The number of persons engaged in food marketing, estimated on a full-time equivalent basis, was 5.2 million in 1956, approximately 33 percent more than in 1940. The cost of labor amounted to an estimated \$18.3 billion in 1956—an increase of about 273 percent over the labor cost for marketing farm-produced foods in 1940.

The increase in labor costs has been affected most by increases in wage rates and other payroll costs which have been part of the general rise in costs and prices throughout the economy since World War II. Average hourly earnings of employees of farm food marketing firms, excluding transportation, were \$1.82 in 1956. This contrasts with average hourly earnings of 61 cents for these workers in 1940.

Federal and, in some instances, State legislation establishing minimum wage levels may have contributed in part to this increase. In addition, expanding coverage and provisions of collective-bargaining agreements between unions and management in the processing, wholesaling, and retailing industries has no doubt contributed to increasing wage rates as well as nonwage labor costs.

Even so, year-to-year increases in average hourly earnings of employees in food manufacturing generally have been smaller since 1940 than those for all manufacturing employees, particularly during the early years of this period. Annual increases since 1940 have been about the same for retail food store employees as the average for all employees in retail trade. Hourly earnings in retail trade since 1940 have not increased as much as those in manufacturing.

Fringe benefits, which became important during World War II, have increased in amount, and the practice has spread to an increasing number of firms. Supplements to wages and salaries, which include employer payments for social insurance, unemployment insurance, unemployment taxes, compensation for injuries, and contributions to private pension and welfare funds, amount to about 7 percent of wages and salaries. Additional benefits to employees in the form of paid vacations, paid holidays, other time off with pay, bonuses, and profit-sharing plans bring the total of fringe benefits, including supplements to wages and salaries, to as much as 20 percent of payroll for some firms.

Because of increased output per man-hour of labor, labor cost per unit has not increased as much as wage rates and other payroll costs. From 1940 through 1956, per unit labor cost has increased about 140 percent (fig. 5).

It also should be noted that, although payments for wages and salaries have increased since 1940, this increase has been a factor in expanding consumer expenditures for food. Expenditures per person for food have increased each year since 1946, with the exception of 1949.

FOOD MARKETING LABOR COSTS AND HOURLY EARNINGS

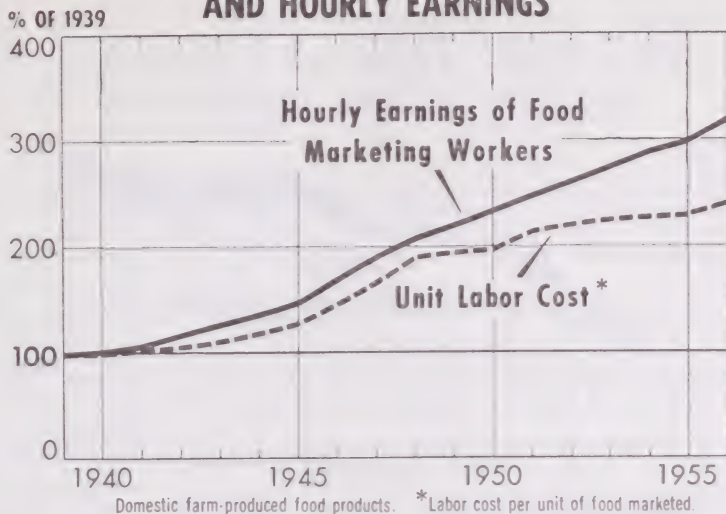


FIGURE 5.

Transportation

Since 1945, transportation has taken an increasing portion of both the marketing dollar and the retail food dollar (fig. 6). Transportation rates have increased steadily since 1945. In addition, many food items are now hauled longer distances to feed our growing population in urban centers.

CHANGES IN LAST DECADE

TRANSPORTATION PORTION

Of The Retail Food Dollar



Of The Marketing Dollar



FIGURE 6.

The interstate Commerce Commission recently granted railroads another in a series of rate increases since 1945. This latest increase brought the total rise in average freight rates on agricultural products to about 75 percent during the last 10 years (fig. 7).

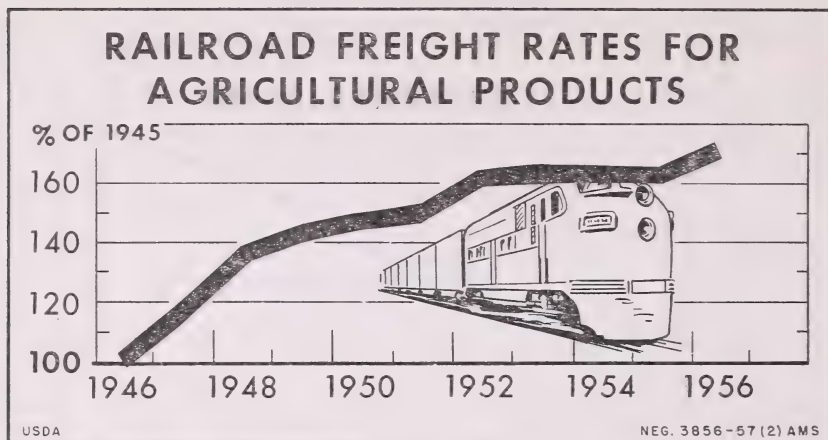


FIGURE 7.

Profits

Corporate profits before taxes in 1955 were about 6 percent of the total marketing bill for farm-food products. After taxes they amounted to about 3 percent of the marketing bill. The part of the marketing bill represented by corporate profits before taxes has ranged from less than 5 percent before World War II to a peak of almost 11 percent in 1946.

Total profits before taxes of a group of large food processors, wholesale distributors, and retail food chains have grown substantially since 1945. Larger total profits in recent years can be explained primarily by the increased volume of food sales handled by these firms. Their profits as a percentage of sales are lower than in 1945 and 1946 (fig. 8).

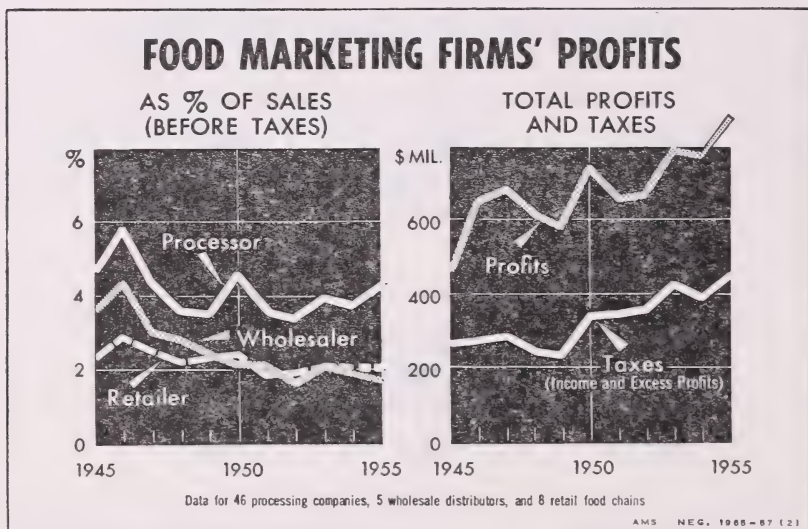


FIGURE 8.

Total profits and profit rates of food-marketing firms were generally a little higher in 1955 than in the preceding year. Available data indicate that profits were higher in the first 9 months of 1956 than in the same period of 1955.

In the economic sense, ratio of profits to sales is not as important a measure of profitability as return on investment. The latter ratio measures the earning power of that part of the total investment in which the stockholder has an interest. Profits of food-marketing firms in relation to invested capital are higher than profit ratio on sales; however, earnings on invested capital of food manufacturers generally are lower than for most other manufacturing groups. In 1955, net profits (after taxes) as percentage of net assets for food-processing groups, ranged between 6 and 12 percent; for all manufacturing net profits averaged 15 percent of net assets.

PRICE SPREADS FOR WHITE BREAD

The retail price of bread has gone up more than 70 percent since 1946, the most rapid changes occurring between 1946 and 1948 and between 1950 and 1951. Costs of flour to the baker and the returns to the farmer for equivalent amounts of wheat increased from 1946 to 1947. Since then, wheat and flour prices have remained relatively steady; however, both flour and wheat declined slightly during 1956 (fig. 9).

Although the cost of flour to the baker represents about 75 percent of the total ingredient cost, flour and wheat represent only a small proportion of the average retail price of 18 cents for a pound loaf of bread. Most of the retail price paid for a loaf of bread is a payment for the marketing and transportation services rendered in milling the flour, baking the bread, and wholesaling or retailing the bread either through the stores or through delivery routes. In 1946, farmers received 20 percent of the retail price for the wheat equivalent in a pound loaf of bread, and in 1956 they received only 15 percent. Inasmuch as the ingredients in bread are only about one-sixth of the retail price, considerable fluctuation can take place in farm prices without affecting bread prices.

In view of the almost divergent trends of wheat and bread prices, the baking, wholesaling, and retailing margin has been increasing fairly steadily since 1946. This increase amounted to an average of three-quarters of a cent per loaf per year between 1946 and 1954, and slightly less than half a cent per loaf per year from 1954 to 1956.

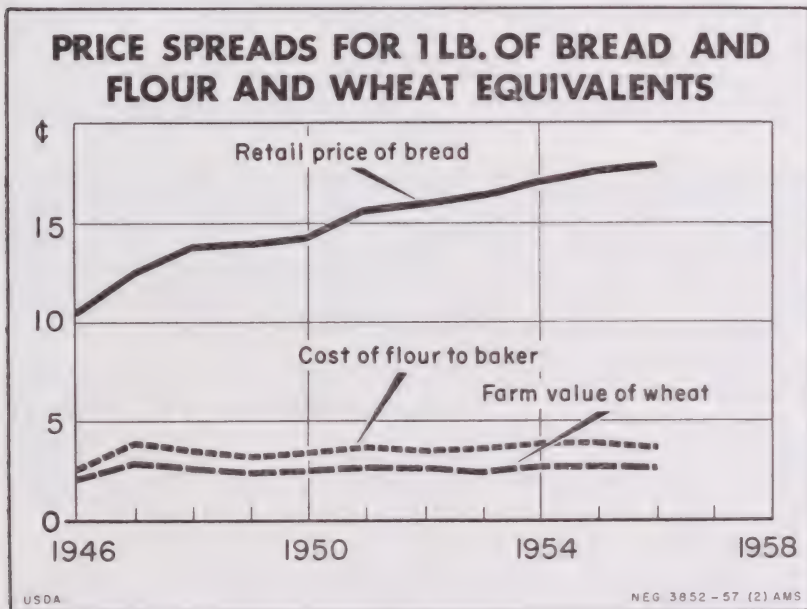


FIGURE 9.

Margins for marketing livestock declined somewhat after the postwar boom following World War I to a level around 14 cents per pound of meat during the first half of the decade of the twenties (fig. 10). In the latter half, they increased to around 16 cents per pound of meat. Margins declined during the depression to a low of 10.3 cents per pound of meat in 1933. They declined somewhat in the forties, but remained relatively steady at around 11 cents per pound through the war years, allowing for the fact that subsidies were paid to processors. As far as farmers and consumers were concerned, however, the effect

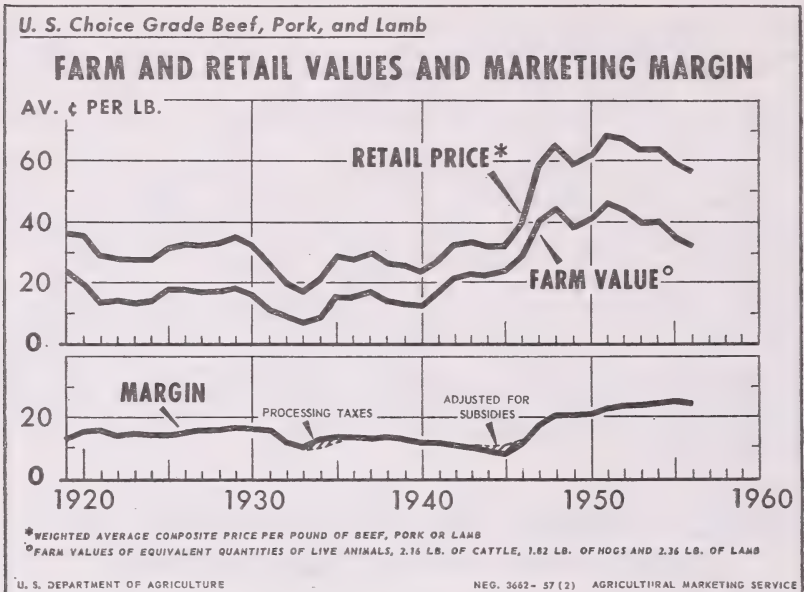


FIGURE 10.

of the subsidies was to lower the actual marketing margin paid by consumers to a low point of 7½ cents per pound of meat in 1945. During the postwar inflation, retail prices of meat, farm values of livestock, and marketing margins shot up sharply from 1946 to 1948. Margins increased from 12.9 cents per pound to 20.6 cents per pound, almost 8 cents per pound in 3 years. Although both retail prices and the farm values of livestock fluctuated during the postwar period, margins appeared to be more stable from year to year. Nevertheless, margins kept on increasing gradually until they leveled off at a high figure of 25 cents per pound in 1955 and 1956.

Since 1946 meat and livestock prices have moved up and down substantially but in different amounts in response to the changing conditions of supply and demand. Margins did not fluctuate in the same fashion during this period. The costs of providing marketing services (in other words, the costs of labor, rent, supplies, transportation, and equipment) tended to be more stable over short-run periods, although they increased during the 10-year period. The costs of providing marketing services are not closely related to livestock and meat prices in the short run.

Marketing margins for beef

Marketing margins for beef trended gradually upward from 1949 to 1956, as shown in figure 11. In this chart, the retail price of U. S. Choice grade beef is compared with the farm value of the equivalent 2.16 pounds of live cattle, less an allowance for the byproducts sold by packers. Marketing margins varied less in dollars and cents than did the farm prices of livestock over periods in which the livestock prices changed substantially, as they did from the higher levels of 1951-52 to the lower levels of 1953-56. The cost of providing marketing

FARM AND RETAIL VALUES AND MARKETING MARGIN

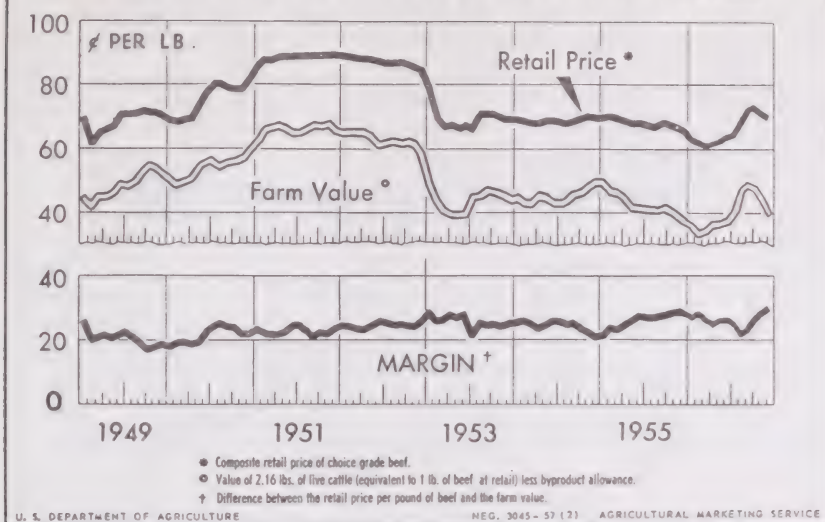


FIGURE 11.

services (labor, rent, supplies, transportation, and equipment) remained relatively constant over short periods, as compared with the prices of livestock and meats, which often changed substantially in response to changing conditions of supply and demand. In short-run situations, such costs are not closely related to livestock and meat prices. Nevertheless, there were some erratic month-to-month fluctuations in overall farm to retail margins, when retail meat prices failed to adjust quickly with changes in livestock prices at the farm. Variations of this kind have not been unusual in the past and are not peculiar to this particular period.

From 1954-56, however, some longer time lags in adjustment of farm-to-retail prices had some greater effects on marketing margins. During the rise in prices of high-grade steers and heifers in the latter part of 1954, the retail price of beef remained relatively stable. Margins narrowed substantially below the longer run average level during this period. When prices dropped in 1955 and early 1956, margins widened to record levels. In this case, the failure of retail and wholesale prices to follow live prices more closely, or the successive narrowing and widening of margins during a period first rising and then falling cattle prices, tended to increase the instability of farm prices of cattle. Both the upswing of cattle prices in the latter half of 1954 and the downswing in 1955 and 1956 were greater than they would have been if retail and wholesale prices had followed cattle prices more closely.

From the first quarter of 1955 to the first quarter of 1956, the farm-to-retail marketing margins increased 4.9 cents per pound on the basis of retail weight, from 22.5 cents in the first 3 months of 1955 to 27.4 cents during the first 3 months in 1956. About two-thirds of this increase was a recovery from the lower level of 1954. This 4.9 cents at the retail level was equivalent to a widening of margins of about \$2.25 per 100 pounds on the live-weight basis. About 87 percent of this widening of the marketing margin over this period of 1 year was accounted for at the live-to-wholesale level, 13 percent at the wholesale-to-retail level. Again, with rising beef and cattle prices in 1956, marketing margins first narrowed substantially from 27.4 cents per pound in the first quarter to 23.0 in the third. They then widened to 27.6 cents per pound in the fourth quarter, to about the same level as in the same period in 1955.

Marketing margins for pork

Farm and retail values and marketing margins for pork from 1949 to 1956 are shown in figure 12. This shows that the changes in the farm value of 1.82 pounds of live hogs, equivalent to a pound of pork at retail, tended to coincide roughly with the movements of retail pork prices. Nevertheless, there were some rather substantial fluctuations in marketing margins within each year during this period.

Three other important characteristics of prices and margins during this period are shown in this chart. One of these is (1) the gradual widening of

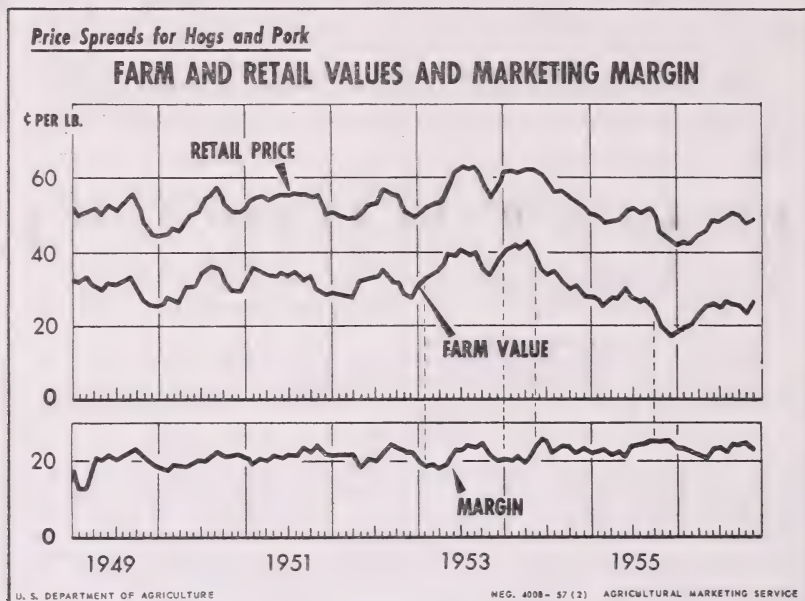


FIGURE 12.

farm-to-retail margins. Since 1947, margins have widened 5.5 cents a pound, or at an average annual rate of about 0.6 of a cent a year.

Another tendency is (2) the seasonal pattern of wider marketing margins in the latter half of the year than in the first half. On the average, the margin for converting 1.82 pounds of live hog on the farm to 1 pound of pork at the retail store was about 1.8 cents more during the latter half of the year. This is equivalent to an increase of about \$1 per 100 pounds of live weight in the marketing bill in the late summer and fall.

A part of this seasonal increase in marketing margins may be due to the changing number of hogs marketed, which actually represents changing demands for marketing services. With increased marketings, packers, of course, have to expand their hog kill. This requires more hours of work per week. This in most cases results in overtime pay. In this situation, packers have no problem at all in obtaining the supply of hogs they need. But they do often have a problem in handling all the hogs that are delivered to them. The live-hog market then has a weaker undertone.

Packer-wholesaler spreads become wider during the fall when farmers begin selling their spring pigs in sizable numbers and when there is said to be a buyer's market. Large hog marketings represent a high demand for marketing services. The reverse is true when hog marketings are light. Then the demand for marketing services is low and packers often must take a lower margin—or price—for the processing and wholesaling services they provide.

Another factor influencing the seasonal pattern of the overall marketing margin is (3) lags in price adjustments between farm and wholesale prices and between wholesale and retail prices. Some of the effects of the lags in the adjustment of retail prices behind changes in farm prices are shown in the

chart. For example, in early 1953, farm prices rose much more rapidly than retail prices, and margins appeared to be narrowed for a time. This also happened in late 1953 and early 1954. In mid-1955, however, margins widened sharply when retail prices lagged behind the sharply dropping prices of live hogs. In the latter half of 1955, the lag of retail prices behind the rapidly declining hog prices brought the overall marketing margins to a record high figure. From the second quarter to the fourth quarter during 1955, retail prices for pork dropped 3.7 cents a pound while the equivalent quantity of live hogs dropped about 8 cents in value. The marketing margin, therefore, increased by 4.3 cents a pound of retail pork. Marketing margins for pork averaged slightly lower in 1956 than in 1955, dropping 0.9 cent from the record annual average attained in 1955. This relatively small decrease resulted from slight decreases in both packer and retailer margins.

Why do changes in retail prices usually follow behind changes in wholesale prices, and wholesale prices behind live animal prices? Within any year, pork supplies fluctuate more than does the consumer demand for pork. For this reason, the focal point in pricing pork and live hogs appears to be the packer buying level. This is because changes in pork supplies are first felt at the packer buying level rather than at the retail level. Hog prices usually respond rather rapidly to pronounced changes in hog marketings.

The changes in wholesale and retail prices usually follow behind the changes in live hog prices, but not always by a corresponding amount. The first impact of changes of pork supplies is on packers' inventories. With small changes in hog marketings, inventories may be adjusted without a corresponding change in wholesale prices. With substantial increases in hog marketings, however, packers must lower wholesale pork prices in order to move the increased volume of pork. They raise wholesale prices in order to ration the smaller supplies among their customers if marketings have decreased.

Retailers often ignore small wholesale price changes and wait until definite trends in wholesale prices become established before changing retail prices. Retailers are often rather reluctant to change prices because of possible adverse reaction of consumers to the rapidly changing prices. They generally believe that consumers prefer a relatively stable price situation rather than one in which prices are constantly changing by small amounts.

The tendency for retail prices to lag behind changes in wholesale and farm prices results in an alternate narrowing and widening of marketing margins over the short run. This tends to accentuate the instability of farm prices of hogs during the year. It widens the seasonal variations in hog prices and creates special problems for producers.

Marketing margins for lamb

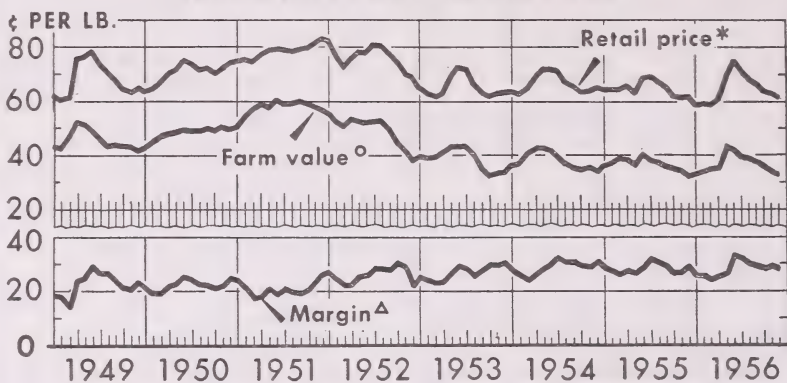
Overall marketing margins for lamb, from live-animal prices at the farm to the retail prices of lamb in the stores, are shown in figure 13. In this chart, average retail prices per pound of lamb are compared with the farm value of an average equivalent 2.37 pounds of live lamb.

Farm-to-retail margins declined gradually through 1949 and 1950, and then dropped rather sharply during the first part of 1951. Government ceiling price regulations were imposed early in 1951, preventing retail prices of lamb from rising at a rate comparable to the rising farm prices of live lambs. Margins were narrowed, therefore, during this period as the prices of live lambs advanced while wholesale and retail prices of lamb were nearly stationary for a time. During the following period, the overall farm-to-retail margin increased rapidly from an abnormally low 20.9 cents per retail pound in the first quarter of 1951 to more than 29 cents in the last quarter of 1953. During the next 3 years, from 1954 through 1956, the overall marketing margins for lamb leveled off at about 28 cents per retail pound.

Within the year, overall farm-to-retail margins for lamb tend to follow a seasonal pattern, dropping during the early part of the year and rising through the late summer, fall, and winter. This seasonal pattern is more apparent in

U. S. Choice Grade Lamb

FARM AND RETAIL VALUES AND MARKETING MARGIN



*COMPOSITE RETAIL PRICE OF CHOICE GRADE LAMB

° FARM VALUE OF LIVE WEIGHT (EQUIVALENT TO 1 LB. OF LAMB AT RETAIL) LESS BYPRODUCT ALLOWANCE

Δ DIFFERENCE BETWEEN THE RETAIL PRICE PER LB. OF LAMB AND FARM VALUE

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NEG. 3659 - 57 (2) AGRICULTURAL MARKETING SERVICE

FIGURE 13.

the overall farm-to-retail margins than in the live-to-wholesale and wholesale-to-retail margins.

For many processors, lamb is a specialty item, a sideline enterprise to their more important beef and pork operations. These processors, nevertheless, attempt to keep their clientele supplied throughout the year even though the supply of lambs may be scarce. For such specialty items, comprising a small percentage of the total operations, processors can afford to go into the "red" for short periods of time in order to maintain a supply for their lamb purchasing clientele. When lamb supplies are more adequate later in the year, these same processors may find opportunities to recoup their earlier losses.

Where the consumer's meat dollar goes

Cattle, hogs, and lambs go through a number of steps and processes in being moved from the farm and converted to meat for consumers. To illustrate these steps and different costs of marketing, six examples each for beef, pork, and lamb have been prepared. These show the returns to ranchers, farmers, and feeders in different marketing situations during 1954, 1955, and 1956, and the returns to different agencies.

Figure 14 shows returns to ranchers and feeders for cattle in six different marketing situations during 1954 and 1955. These returns are expressed as percentages of the consumer's beef dollar. The six examples are: (1) and (2) feeder steers from a Texas ranch to sale of U. S. Choice grade beef at retail in New York City, (3) a feeder steer from a Wyoming ranch to sale of U. S. Choice grade beef at retail in Washington, D. C., (4) a steer raised and fed on an Illinois farm to sale of U. S. Choice beef at retail in Chicago, (5) a feeder steer from a Texas ranch to sale of U. S. Choice beef at retail in Los Angeles, and (6) a feeder steer from a Montana ranch to sale of U. S. Choice grade beef at retail in San Francisco.

Six examples for pork marketing are shown in figure 15. These illustrate different distributions of the consumer's pork dollar to the various agencies involved in raising the animal and on through channels to the market at the place, time, and form in which the consumer wants it. These six examples represent different production and marketing programs for hogs, farrowed in the fall of 1954 and spring of 1955 and marketed as slaughter hogs 6 to 8 months later. They show the returns to various agencies for marketing of hogs and pork from: (1) An Iowa farm to consumers in New York City, March 1955, (2)

WHERE THE CONSUMER'S BEEF DOLLAR GOES

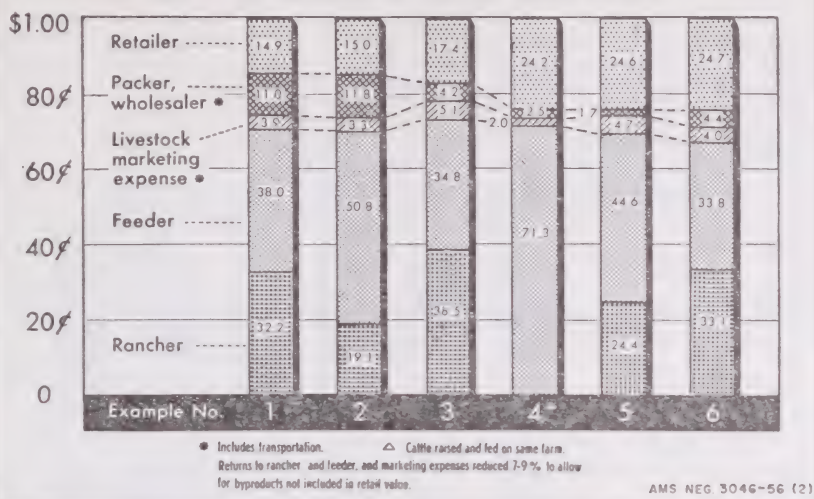


FIGURE 14.

an Illinois farm to consumers in Washington, D. C., April 1955, (3) a Nebraska farm to consumers in San Francisco, Calif., November 1955, (4) an Indiana farm to consumers in New York City, October 1955, (5) a South Dakota farm to consumers in Seattle, Wash., November 1955, and (6) an Illinois farm to consumers in Chicago, Ill., September 1955.

Six Examples in Different Situations, 1955

WHERE THE CONSUMER'S PORK DOLLAR GOES

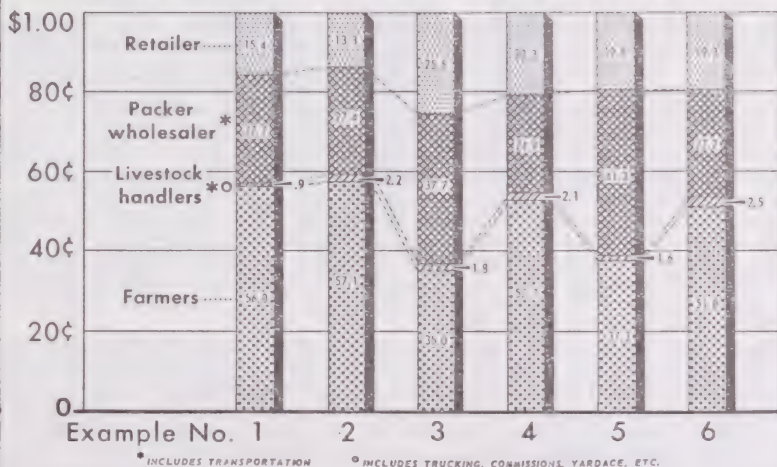


FIGURE 15.

Figure 16 is a chart showing how the consumer's lamb dollar was distributed among the different marketing agencies and among farmers, feeders, and ranchers in six different marketing situations. These different marketing situations are: (1) Feeder lambs on a Wyoming ranch to U. S. Choice grade lamb at retail in Boston, January 1956, (2) Ohio spring lambs to U. S. Choice grade lamb at retail in New York, July 1956, (3) fed California lambs to a Los Angeles retailer in April 1956, (4) Texas feeder lambs to U. S. Choice grade lambs at retail in Washington, D. C., December 1955, (5) feeder lambs on Idaho ranch to retail lamb in Portland, Oreg., January 1956, (6) Montana spring lambs to retail in Chicago, September 1955.

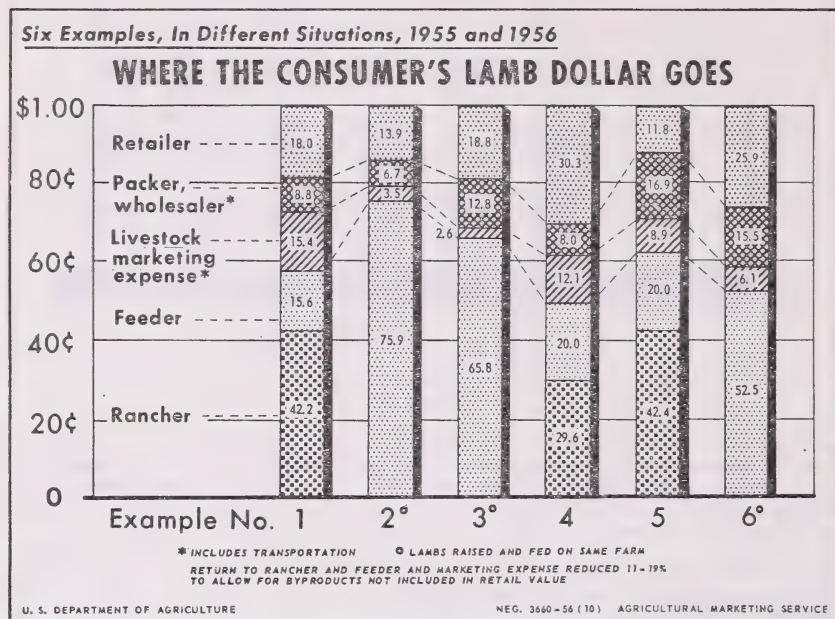


FIGURE 16.

There were some striking differences in each of these illustrations. The Texas steer which went to New York returned 15 cents of the consumer's beef dollar to the retailer. The Texas steer which went to Los Angeles returned almost 25 cents to the retailer. The Texas steer which went to Los Angeles returned almost 25 cents to the retailer. Packer-wholesaler's share of the consumer's dollar for the beef sold in New York was 11 cents. In Los Angeles, it was 2½ cents.

In the third example for pork, the farmer received 35 cents of the consumer's dollar while the marketing agencies received 65 cents. In the second example, however, the farmer got 57 cents, while the marketing agencies got 43 cents.

In the fifth example for lambs, the retailer got about 12 percent of the consumer's dollar for lamb, while in the fourth, the retailer got over 30 percent. In the second marketing situation, the packer-wholesaler received about 7 cents of the consumer's dollar, while in the fifth, the packer-wholesaler got about 17 cents of the consumer's dollar. In the second situation, the producer received over three-fourths of the consumer's dollar, while in the fourth the rancher and feeder together received about half.

These charts demonstrate that returns to the more important marketing agencies as well as the returns to farmers, feeders, and ranchers can differ greatly during a year. They tend to bring out the importance of variations in net returns received by farmers and marketing agencies resulting from differences in marketing channels used, location, time of marketing, and other factors. Had the farmer in each example decided to market his livestock 1 month earlier or 1 month later, his returns, and returns to the packer-wholesaler and retailer, might have been substantially different, and corollary to this, the distribution of the consumer's dollar among agencies would have been different.

These examples illustrate, in terms of individual marketings of livestock and meat from farm to consumer, that differences between costs and selling prices can vary greatly, yielding different margins for similar services at different times.

MARKETING MARGINS FOR FRUITS AND VEGETABLES

Marketing margins for fruits and vegetables have risen in recent years, but the rate of increase has been less than the average for all farm products in the market basket. Between 1946 and 1956, marketing margins for fresh and processed fruits and vegetables in the market basket increased 32 percent. This compared with an average increase of 58 percent for all foods in the market basket. During the 11 years from 1946 to 1956, the total retail cost of all fruits and vegetables in the market basket increased 20 percent, while the farm value of the equivalent quantity of produce was about the same in 1956 as in 1946. The farmer's share of the consumer's dollar spent on fruits and vegetables during 1956 was 30 percent, compared to 37 percent in 1946.

The increase in the spread between what the consumer pays and what the farmer receives for an equivalent quantity of produce has resulted mostly from increases in the costs of marketing services and the provision of additional services. The increases in marketing costs have resulted from rises in labor costs and transportation charges and increased prices of materials, equipment, and services bought by marketing firms.

California lettuce

The marketing margin for Salinas lettuce sold in New York City in October increased from \$4.27 in 1950 to \$4.76 in 1955 and \$5.28 in 1956 (fig. 17). The

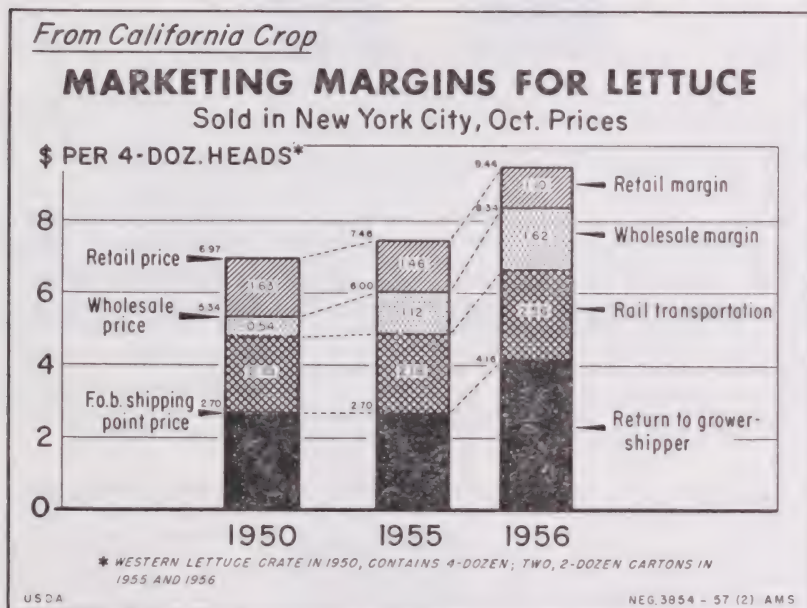


FIGURE 17.

growing and shipping of Salinas lettuce is usually handled by the same firm. Harvesting and packing costs declined due to a change from shed packing in iced crates to field packing in cartons and vacuum cooling. At 1953 price level, the cost for harvesting and packing was \$1.89 per 4-dozen crate. For an equivalent amount of lettuce packed in cartons the cost of harvesting and packing averaged \$1.48. Costs of transportation and wholesaling have continued to rise. Retailing has taken a smaller share of the marketing costs. In 1956 returns to grower were nearly double those of 1955 and 1950, due in part to a shorter crop—about 20 percent below the 1951-55 average October shipments.

Florida oranges

The charges for marketing Florida oranges through the fruit auction in New York City during the 1955-56 season averaged 90 cents per box higher than the charges for oranges sold through the Chicago fruit auction (fig. 18). The unload-

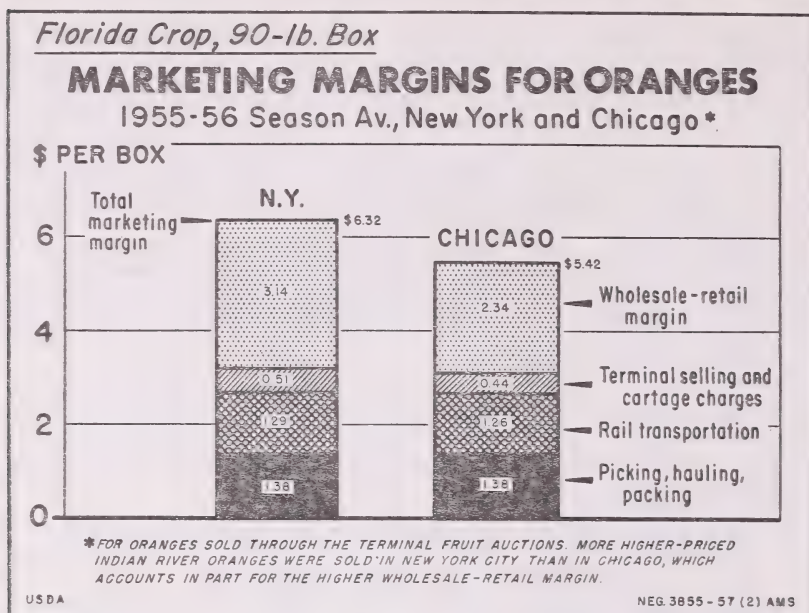


FIGURE 18.

ing charge of the railroads made the cost of transportation 3 cents per box higher. Cartage rates in the crowded New York City market also were greater than in Chicago. The wholesale-retail margin was 80 cents higher in New York City than in Chicago, in part because New York City is a prime market for Indian River oranges, which bring a higher price than fruit from other sections of the State. In general, higher priced fruit carried a somewhat higher margin at the retail level.

Comparisons of costs for fruit sold through the New York fruit auction in 1949-50 and 1955-56 showed that the wholesale-retail margin increased 1 percent, terminal selling and cartage charges increased 52 percent, rail transportation rose 5 percent, and picking, hauling, and packing costs were up 14 percent.

Potatoes

Comparisons of marketing margins for Idaho Russet Burbank potatoes sold in 4 major markets are shown in figure 19. The grower and the shipper together received from 28 to 34 percent of the retail price. The grower-shipper share of the retail price for Long Island Round White potatoes sold in New York City at the same time was 32 percent. Retail prices of Idaho potatoes ranged from the equivalent of \$6.60 per 100 pounds in Los Angeles to \$8 in New York City, while Long Island potatoes were bringing \$4.50 per 100 pounds in New York City.

Retail margins (the spread between the wholesale and retail prices) on Idaho Russet Burbanks ranged from \$2.72 per 100 pounds in Atlanta to \$3.60 in New York City. The lowest retail margins, in terms of a percentage of the retail price, were found in Atlanta and the highest in Los Angeles. Retail margins on Long Island potatoes in New York City were lower than those found in any of the four cities for Idaho potatoes in dollar terms, but higher in percentage terms.

Preliminary examination of data for November 1956 shows no appreciable change from the margins shown for November 1955.

Florida sweet corn

The following marketing charges and grower returns are typical of those experienced during the heavy shipping period of the 1955 season for Florida sweet corn.

PRICES AND MARKETING MARGINS FOR POTATOES

Four Markets, November 1955

\$ PER CWT.

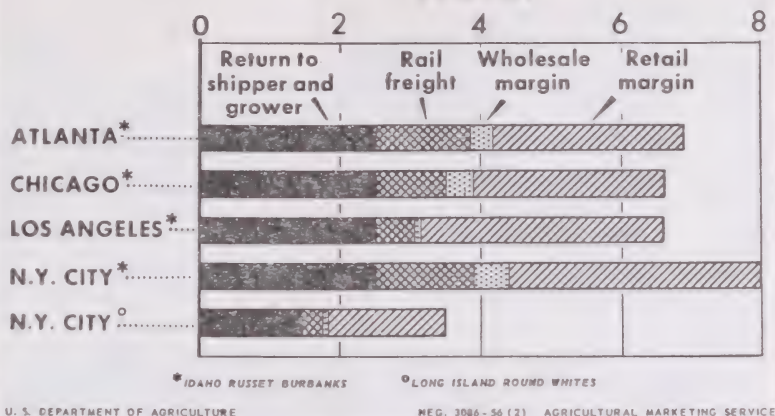


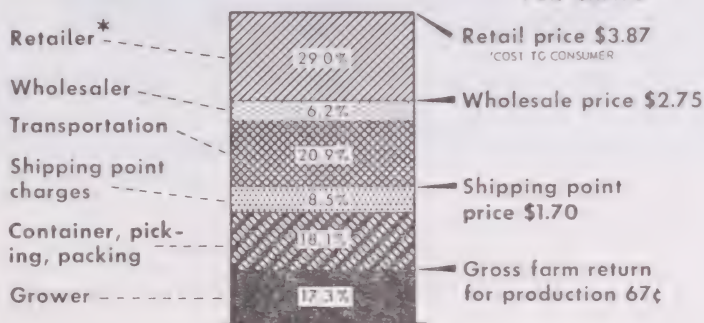
FIGURE 19.

The Belle Glade, Fla., grower received a gross return of \$0.67 per crate for sweet corn shipped to Baltimore during May 1955 (fig. 20). Out of the \$0.67, the grower had to cover all costs of production. After the costs of the container, picking, packing, and shipping point marketing charges were added, the f. o. b. shipping point price was \$1.70 per crate. The wholesale selling price was \$2.75 and the retail price was \$3.87 per crate.

Farm-to-Retail; A Case Study

MARKETING MARGINS AND COSTS FOR FLORIDA SWEET CORN

PER CRATE



U. S. DEPARTMENT OF AGRICULTURE

NEG. 4035-56 (3) AGRICULTURAL MARKETING SERVICE

FIGURE 20.

FRESH MILK

The average price paid by consumers for a quart of fresh whole milk went up one-fifth from 1947 to 1955. But the average price received by farmers for milk was about the same in both years (fig. 21).

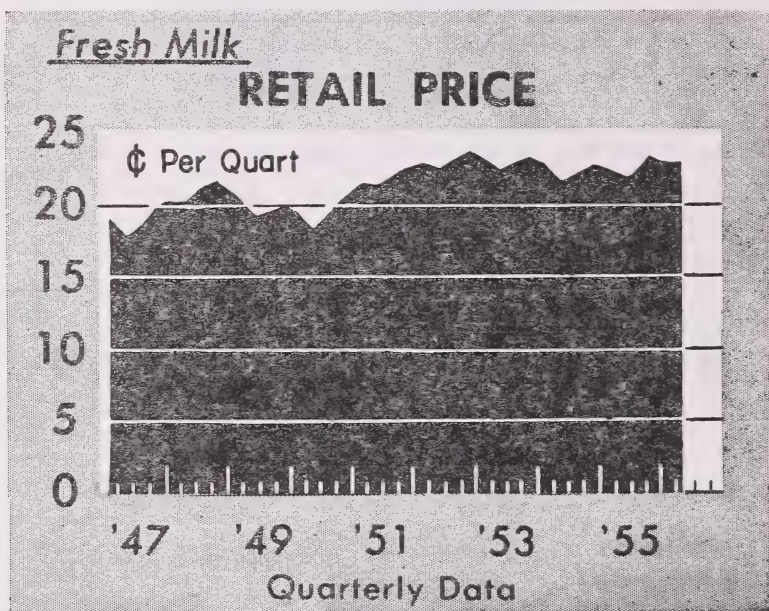
The cost of marketing milk is much higher now than it was in 1947, the first year after removal of wartime price ceilings (fig. 22).

Because of the increase in marketing costs, farmers received 45 percent of the price consumers paid in 1955, compared with 55 percent in 1947.

Consumers paid about 0.8 cent more, on the average, for a quart of milk in the spring of 1956 than a year earlier. About half of this increase went to farmers and the other half went to marketing firms.

Charges for hauling milk from farms to processing and bottling plants amounted to about 5 cents of the dollar spent by consumers for milk in 1955. Processing and bottling costs made up 18 cents; distribution costs, 23 cents; and management costs, 4 cents. Marketing firms received 5 cents of the consumer's dollar in profits; corporate income taxes take about one-half of the business profits. Thus, marketing costs and profits represented 55 cents of the consumer's milk dollar in 1955. The rest—45 cents—was received by farmers.

Wages, salaries, commissions, and other costs of employing the marketing workers accounted for a fourth of the consumer's dollar in 1955. Depreciation, property taxes, insurance, and other expenses made up 9 cents; bottles and paper cartons accounted for 6 cents; and fuel, electric power, advertising, and other expenses for 10 cents.

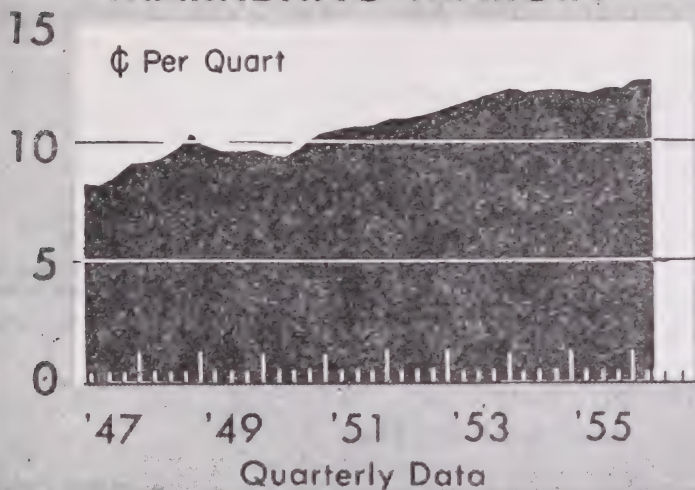


AMS NEG. 3456-56 (8)

FIGURE 21.

Fresh Milk

MARKETING MARGIN



AMS NEG. 3454-56 (8)

FIGURE 22.

Marketing fresh milk includes three major functions—assembly, processing, and distribution. Most milk marketing firms perform all three functions. However, a few firms operate only country plants which assemble milk that is shipping to other plants for processing. A few firms only process and bottle milk, and a few buy milk from processors and perform only the distribution function. Firms that specialize in bottling milk generally are called milk dealers. Approximately half the fluid milk is sold to consumers through retail stores. The costs and profits of these stores in handling milk are a part of the marketing margin.

Fresh milk in Chicago

Retail prices of fluid milk given in the preceding figures are weighted averages of prices published by the Bureau of Labor Statistics for milk delivered to homes and sold in retail stores. Since purchases of 1 quart generally are the most common, price quotations on single-quart purchases predominate in the price samples collected by the BLS. Prices of milk in gallon containers are not collected. In some areas, the price of milk per quart when it is purchased 2 or more quarts at a time is lower than the price of a single quart. The retail price averages given above are, therefore, somewhat higher than prices of all milk purchased by consumers.

A more comprehensive measurement of marketing margins is being made in the Chicago market. Parts of this study already completed tell us that households which bought milk delivered to the home 1 quart at a time paid 26.1 cents a quart. Those who bought more than 1 quart at a time in 1-quart containers paid 22.4 cents a quart. For milk delivered to homes in gallon jugs they paid 20.7 cents a quart. Averaging all purchases of milk delivered to homes in all sizes of containers, the price was 22.6 cents a quart.

Households in Chicago buy much milk at stores also. The average prices they paid for each size of container are shown separately for stores and home delivery in figure 23.

Farm to Consumer

PRICE SPREADS FOR FRESH MILK, BY SIZE OF CONTAINER AND PLACE OF PURCHASE

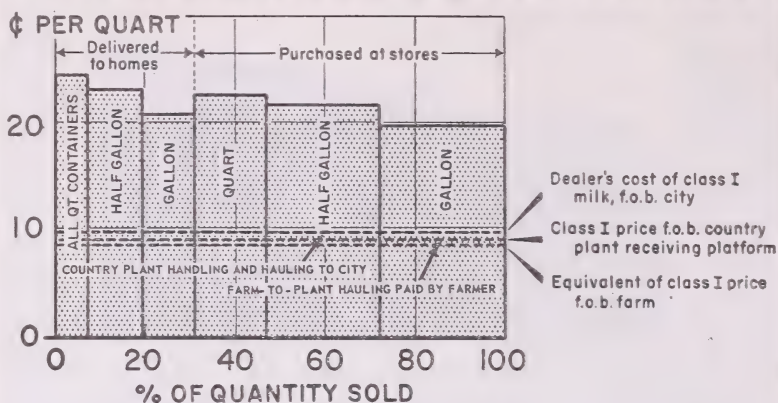


FIGURE 23.

The typical milk dealer in Chicago receives only part of the marketing margin between the farmer and the consumer. In this market, milk frequently passes through several hands: Country plant, bottling plant, vendor, and storekeeper. The study on this phase of the subject is incomplete, but figure 24 indicates approximately how much of the supply of bottled milk is handled by each agency, and the approximate margin for each.

Farm to Consumer

PRICE SPREADS FOR FRESH MILK, BY MARKETING AGENCIES AND SERVICES

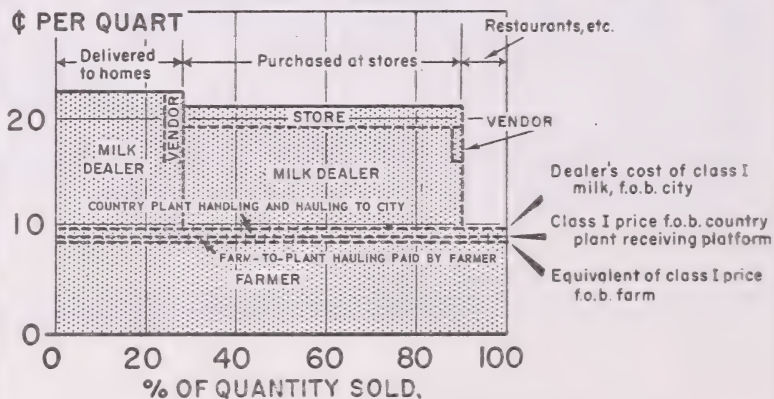


FIGURE 24.

Finding an average price paid by consumers in Chicago is difficult because of the many ways in which milk reaches them. It also is difficult to describe accurately the price received by farmers. The farmer producing milk for the Chicago market receives a price which is an average or blend of the prices established separately for each of several uses. Farmers who deliver milk directly to a plant in Chicago receive a higher price than those who deliver their milk to country plants. A Federal milk marketing order establishes the price for each use, and insures that farmers are paid the proper blend price. But milk plants may, and do, make some additional payments to farmers: They pay part of the cost of hauling the milk from the farm to the plant; they pay premiums to farmers who install bulk milk tanks, and they may pay other premiums for various reasons. The marketing margins for milk delivered by the farmer to a plant in the city, to a plant at about the center of the milkshed, and to a plant in the outer part of the milkshed are shown in figure 25. Some of the components of the margin are estimates based on data which are not yet complete.

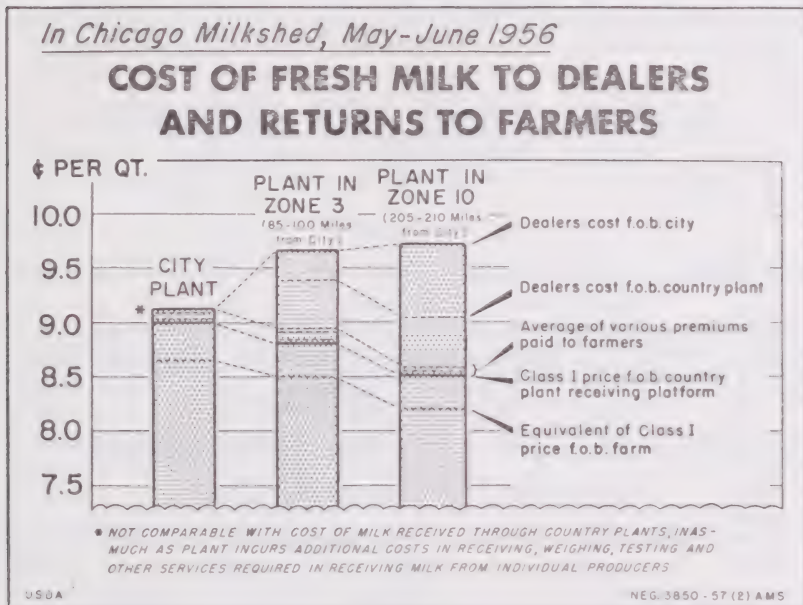


FIGURE 25.

MARKETING MARGINS FOR POULTRY AND EGGS

Marketing margins for commercial broilers

Information on price spreads for commercial fryers was obtained in a study of the marketing of fryers consumed in the Chicago, Ill., and Minneapolis-St. Paul, Minn., metropolitan areas. Large proportions of the fryers sold in these cities are produced on specialized poultry farms in Georgia and Arkansas and processed in large plants in those States. The gross spread between retail fryer prices in Chicago and prices (eviscerated weight basis) received by producers in Arkansas and Georgia averaged between 17.3 and 19.8 cents per pound during July and October 1955, and in the Twin Cities between 19.9 and 23.5 cents. Generally, chainstore margins were at the lower end of the ranges, and independent retailer margins at the top. Chains and large independent supermarkets generally operate on the narrower margins made possible by large volumes and consequent lower per-unit costs.

Differences in retail-store margins account for nearly all the differences in gross farm-to-retail price spreads between the cities. The lower margins in Chicago may be due to the more widespread use of poultry as a low-profit "leader." That is, retailers in Chicago may handle poultry as a low-margin item and some other commodity as a high-margin item, while the reverse may be true in Min-

neapolis-St. Paul. Thus, consumers in Minneapolis-St. Paul, while paying more for frying chickens than consumers in Chicago, may be paying less for some other foods.

Wholesalers' margins on fryers averaged from 2 to 3 cents per pound. Labor constitutes about 70 percent of a typical wholesaler's total costs; building costs, including fuel, power, and light, 11 percent; transportation, 9.5 percent; selling, 4.5 percent; overhead, 4 percent; and miscellaneous, 1 percent.

Processors in Georgia and Arkansas operated in 1955 on gross margins of about 7.5 cents per pound, eviscerated weight. Their costs per pound were about as follows: Assembly of fryers from farms, 0.75 cent; feeding birds at plant, 0.25 cent; labor on all plant operations through packaging, 3.00 cents; packaging material, 1.00 cent; miscellaneous expense and overhead, including profit, 1.25 cents; and freight out, 1.25 cents. Checks on marketing costs for fryers since 1955 indicate very little change since then.

The farm-to-retail price spread on frying chickens remained fairly constant through the last half of 1955 and the first 3 quarters of 1956 as shown in figure 26, based on data supplied by the Bureau of Labor Statistics and the Market News Service, USDA.

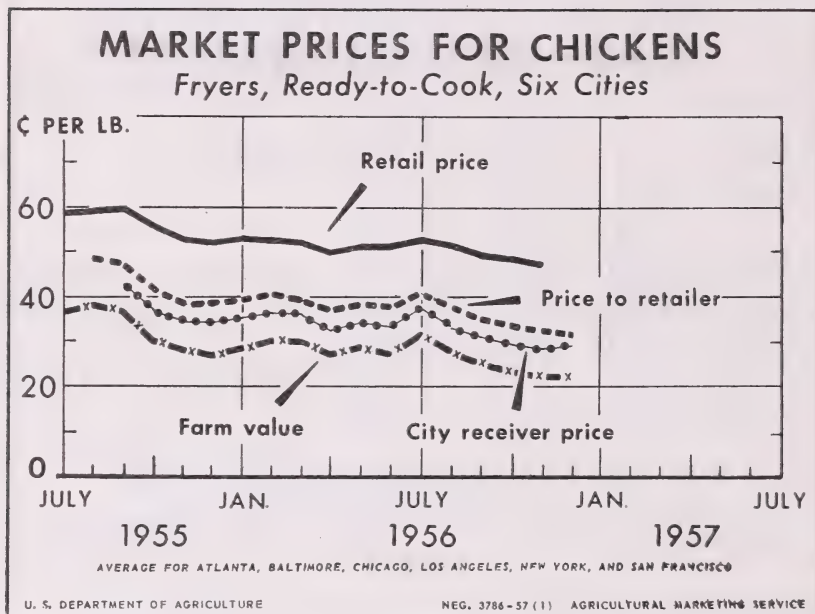


FIGURE 26.

Marketing margins for eggs

Farm-to-retail marketing margins on eggs were lower in 1956 than in any year since 1949. In major United States cities, the gross farm-to-retail price spread fell from 19.1 cents a dozen in 1949 to 17.8 cents a dozen in 1956. Eggs are the only major farm product on which margins have dropped in this 8-year period. The principal conditions underlying this trend of gradually declining egg marketing margins appear to be improvements in handling and distributing methods, shortening of marketing channels through bypassing certain types of handlers, and shifts in egg production into areas nearer large cities.

Farm-to-retail margins on eggs in five large United States cities averaged 23 cents a dozen during the year ending in June 1956. Margins on eggs remain relatively steady from month to month despite wide retail and farm price changes.

MARKET PRICES FOR LARGE EGGS

Grade A, Five Cities

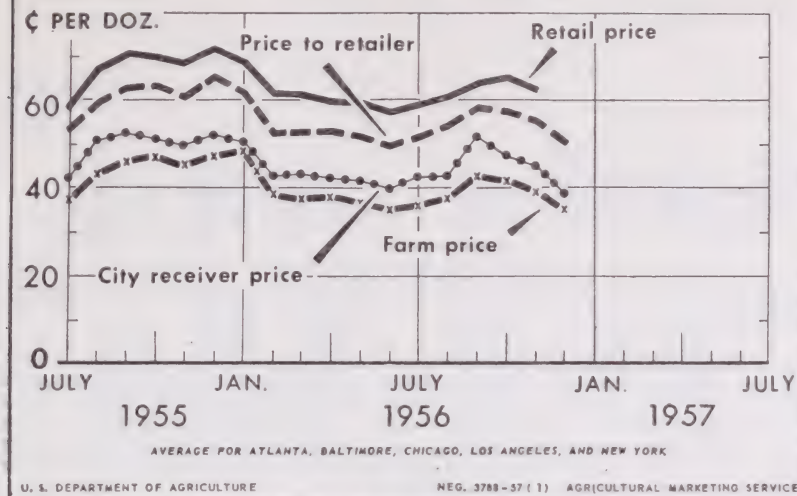


FIGURE 27.

As shown in figure 27, the spread between farm and retail prices tends to widen slightly when supplies are declining and prices rising, and vice versa. Margins on medium eggs average only slightly below margins on large eggs (fig. 28).

MARKET PRICES FOR MEDIUM EGGS

Grade A, Three Cities

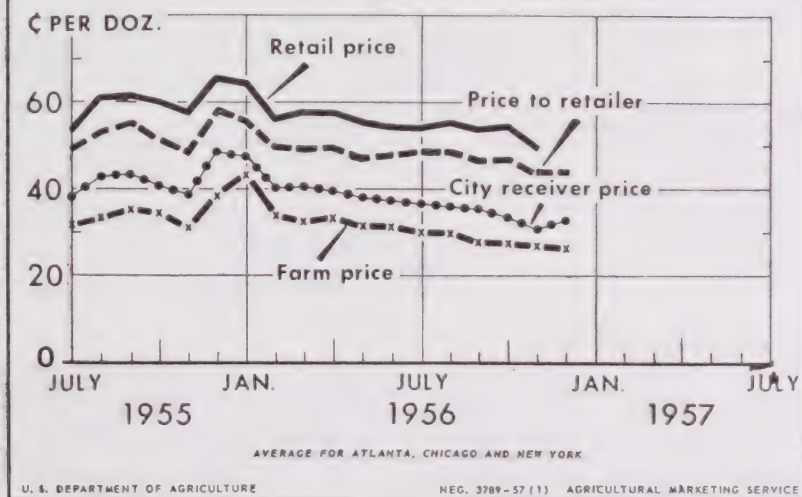


FIGURE 28.

Differences between cities in farm-to-retail egg margins are large, as shown in table 1, and may be the result of several factors, including (1) location of the city in relation to its major producing areas, (2) average grade yield of eggs

received, (3) methods of pricing eggs which make precise price comparisons among markets difficult to compute, and (4) differences in costs and efficiency of assembly, handling, and distributing firms.

TABLE 1.—Eggs, large: Average retail and farm prices a dozen, marketing margins, and the farm share of the retail price, selected cities, July 1955–June 1956

City	Price at farm ¹	Retail price	Farm-retail margin	Farm share
	Cents	Cents	Cents	Percent
Atlanta.....	44.0	63.2	19.2	70
Baltimore.....	43.6	67.8	24.2	64
Chicago.....	35.4	61.1	25.7	58
Los Angeles.....	44.2	59.4	15.2	74
New York.....	41.6	71.1	29.5	59
Average.....	41.8	64.5	22.7	65

¹ Price paid to farmers in New Jersey and Iowa for eggs marketed in New York; in Iowa for eggs sold in Chicago; in Iowa and Pennsylvania for eggs marketed in Baltimore, and in nearby areas for Atlanta and Los Angeles.

A study of marketing eggs in Washington, D. C., in 1954 found farm-to-retail margins ranging from 15.5 cents a dozen to 28.5 cents a dozen. The highest margins were on eggs sold by small independent retail stores and originating in the Midwest. Margins on eggs produced in the East were about 6.5 cents a dozen lower because of lower farm assembly and transportation costs. The lowest margins were on eggs produced in the East and sold through a chainstore which at that time had a policy of low margins on eggs.

An average farm-to-retail price spread of 21.5 cents was found in a study of an efficient large firm assembling eggs in the Midwest and selling them in a large eastern city. Of this amount, 10 cents was the average margin of retail stores. The lower margins for this firm may be in part the result of conducting all candling and cartoning operations at its country assembly plant and the elimination of nonessential handling of the eggs between farmers and consumers. A detailed breakdown of this company's average costs for a 4-month period in 1955–56 is shown in table 2.

TABLE 2.—Eggs: Marketing costs of an efficient large firm assembling eggs and distributing them in an eastern city, and average retail margins, 4 months in 1955–56

Cost item	Cost per dozen	Cost item	Cost per dozen
Country assembly plant:	Cents	City receiving plant:	Cents
Procurement (pickup at farm).....	0.68	Warehouse.....	0.50
Candling.....	.74	Trucks and sales.....	1.75
Cartoning.....	.94	Miscellaneous.....	1.00
Loading out.....	.16	Total.....	3.25
Supervision.....	.33		
Supplies.....	3.50	Combined cost of assembly, transporta-	
Commission.....	.31	tion, and receiving.....	11.50
Miscellaneous.....	.54	Retail gross margin.....	10.00
Total.....	7.20		
Transportation.....	1.05	Farm-to-retail price spread.....	21.50

Marketing margins on turkeys

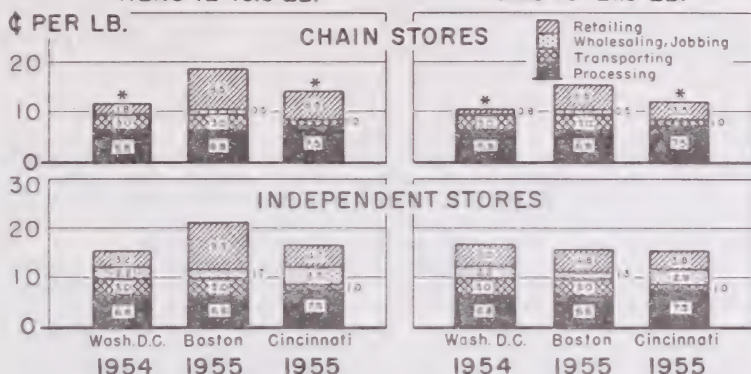
Farm-to-retail price spreads on fresh and frozen ready-to-cook turkeys sold by representative independent retailers in Washington, D. C., during the Thanksgiving and Christmas holidays of 1954 ranged from about 15 to 19 cents a pound; in Boston, Mass., from 15 to 23 cents a pound during the holidays of 1955; and in Cincinnati, Ohio, from 15 to 22 cents a pound during the 1955 holidays. Average margins in the three cities on hen turkeys, as shown in figure 29, were respectively 15.2, 21.0, and 16.7 cents a pound.

MARKETING MARGINS FOR TURKEYS

Thanksgiving Season, Ready-to-Cook Basis

HENS 12-15.9 LB.

TOMS 18-21.9 LB.



• WHERE BARS CARRY ONLY THREE FIGURES, THE CHAIN STORES BOUGHT DIRECTLY FROM PROCESSORS WITH NO INTERVENING WHOLESALE COSTS

NEG 3653-57 (2) AMS

FIGURE 29.

Farm-to-retail price spreads during the same periods on ready-to-cook turkeys sold by chainstores in Washington ranged from 10 to 13.6 cents a pound; in Boston, from 15 to 19 cents a pound; and in Cincinnati, from 11.5 to 18 cents a pound during the holidays of 1955. Average margins on hen turkeys in the three cities were respectively 11.6, 18.8, and 14.0 cents a pound.

Costs of processing turkeys shipped to the Washington, D. C., area averaged 6.8 cents a pound; to the Boston area, 6.8 cents a pound; and to the Cincinnati area, 7.5 cents a pound. The approximate breakdown of these costs is: Assembly of birds from farms, 5.0 percent; plant labor, excluding office and packaging labor costs, 31.5 percent; packaging costs, 24.1 percent; administrative expenses, 5.6 percent; and overhead and miscellaneous expenses 33.8 percent.

Cost of transporting turkeys to Washington, D. C., from California in 1954 ranged from \$3.50 to \$4.09 per hundredweight; from Minnesota from \$1.50 to \$1.75 per hundredweight; and from Virginia from \$0.73 to \$1 per hundredweight.

Gross margins of wholesalers and jobbers on sales of small lots of ready-to-cook turkeys averaged 2.2 cents a pound in Washington, D. C., from 1.3 to 3.0 cents a pound in Boston, and from 2.9 to 5.2 cents a pound in Cincinnati.

Margins of chainstores on ready-to-cook frozen turkeys of all sizes sold during the 1954 Thanksgiving and Christmas holidays in Washington, D. C., ranged from zero to 3.8 cents a pound; in Boston during the holidays of 1955 from 4.9 to 8.5 cents a pound; and in Cincinnati from 3 to 9.5 cents a pound. In the same periods, margins of independent stores on ready-to-cook frozen turkeys of all sizes sold in Washington ranged from 3 to 10 cents a pound; in Boston, from 3.8 to 10 cents a pound; and in Cincinnati, from zero to 9.1 cents a pound. During the first 10 months of 1954 and 1955 when only small volumes of turkeys were sold, chainstore margins were substantially larger in all three cities.

Differences among the cities in farm-to-retail price spreads on turkeys are the result, in part, of differences in transportation and processing costs among the principal areas supplying these cities. The remaining differences appear to be the result of variations in policies of retail stores, particularly chains, on the use of turkeys by stores as low-margin sales leaders and differences in margins taken by wholesalers.

MARKETING MARGINS FOR SUGAR

The farm value of a pound of sugar increased from 1.5 cents in 1940 to 3.6 cents in 1950 and to 4 in 1956, based upon farmers' returns from sugar beets. However, total marketing margins have increased almost steadily since 1940. The farmer's share in the retail price of sugar was 29 percent in 1940; 51 in 1945; 36 in 1950; and 38 in 1956. Adjusted for Government payments the percentages were 40 in 1940; 64 in 1945; 45 in 1950; and 46 in 1956. Under the Sugar Act domestic producers receive these payments from the Federal Treasury and processors pay an excise tax on the manufacture of sugar. This tax amounts to less per pound than do the Government payments to producers.

MARKETING MARGINS FOR VEGETABLE OILS

Changes in Farm Value and Marketing Charges¹

Farm value of a pound of oil in soybeans or cottonseed has declined from the 1945 level despite rising consumer prices in the retail market. For soybean oil the average decline has been 16 percent, while the average marketing charges for soybean oil in margarine have increased 36 percent. Marketing charges for soybean oil marketed in shortening have increased 78 percent.

Farm value of the oil in cottonseed declined 27 percent. The increase in marketing charges for cottonseed oil in the form of margarine was 14 percent. Although the decline in farm value was 11 percent greater for cottonseed oil than for soybean oil, the increase in charges for marketing cottonseed oil in shortening was only 73 percent compared with 78 percent for soybean oil.

Costs of railroad transportation for soybean oil increased 92 percent between 1945 and 1955 and those for cottonseed oil 72 percent. In 1947 wages of employees of cottonseed oil mills represented 6 percent of the value of production and in 1954 about 8 percent. Employee wages in soybean oil mills showed less of an increase, apparently due to mechanization. In both the margarine and shortening industries wages increased by an amount equal to about 1.5 percentage points of the value of shipments. The cost of material, fuel, electricity, and supplies decreased by about 1.5 percentage points of the value of shipments.

REGULAR FUNDS

MARKETING MARGINS FOR COTTON PRODUCTS

In addition to the margins and costs studies made with earmarked funds for selected foods, the Agricultural Marketing Service has continued its studies of cotton marketing on regular funds. The data relating to the retail values of a group of 42 cotton articles of clothing and household furnishings and to farm values of equivalent quantities of cotton indicate that from 1946 to 1956 returns to farmers ranged between 12 and 14 percent of the consumer's dollar (fig. 30).

¹ Average of four cities, New York, Atlanta, Chicago, and Los Angeles.

MARGINS FOR COTTON PRODUCTS

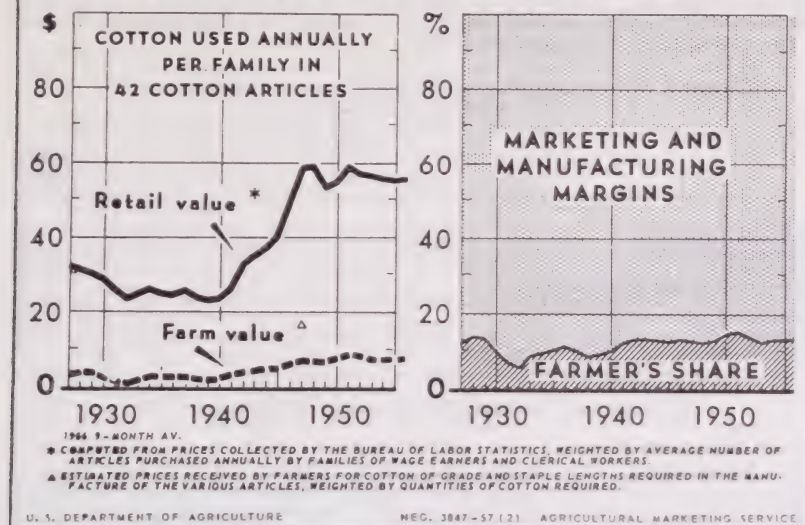


FIGURE 30.

Marketing margins and the farmer's share of the consumers' dollar vary from one type of cotton article to another. During the 6 years ending with 1956, the farmer's share of the consumer's dollar averaged about 18 percent for overalls, 16 percent for work shirts, and 8 percent for business shirts. These proportions decreased from 1951 to 1956

MARKETING MARGINS FOR TOBACCO

Distribution of the margin on cigarettes

The portion of the retail value of cigarettes going to the growers increased substantially with World War II, it fell off somewhat after the war but is now 15 percent of the retail price compared with 8 percent prewar. Conversely, the share going to the manufacturers and tobacco dealers was reduced substantially during the war years with price controls. It increased to about 20 percent in 1953-55 compared to 26 percent in 1938-40. The Federal excise tax which took 43 percent of the retail value prewar and during the war, now takes approximately 35 percent. Both the cost of distributing cigarettes through wholesale and retail outlets and the estimates of cigarette taxes levied by State and local governments have increased, the former from 15 percent to 20 percent and the latter from 7 percent to 11 percent (table 3).

TABLE 3.—Distribution of margin as proportion of retail price of cigarettes

	1938-40	1943-45	1953-55
	Percent	Percent	Percent
Retail price.....	100.0	100.0	100.0
State tax.....	6.9	7.3	10.8
Distributors, wholesale, and retail.....	15.3	18.9	19.9
Federal excise tax.....	43.1	42.8	34.6
Manufacturer and dealers.....	26.4	14.0	19.5
Farm value.....	8.3	17.0	15.2

Retail cigarette prices have increased less than most consumer prices since prewar, 64 percent compared with 91 percent for the consumer price index. The prices of cost items entering into the margin between the grower of cigarette tobacco and the consumer of cigarettes have increased at varying rates. Wages

in cigarette manufacture have increased 200 percent, State and local excise taxes 150 percent, all costs of distribution 109 percent, the price to the cigarette manufacturer (before excise taxes) 57 percent, and the Federal excise taxes 30 percent. Wages in the distributive trades likewise have increased by 170 percent. The price of cigarette tobaccos, flue-cured, burley, and Maryland, have increased on the average by 198 percent (table 4).

TABLE 4.—Percentage increase in retail price of cigarettes and costs, 1938-40 to 1953-55

Item	Percentage increase
Consumer price index.....	91.3
Retail price cigarettes.....	64.0
Cost of wholesaler and retail distribution.....	109.1
State excise taxes.....	150.0
Wages—wholesale and retail distribution.....	170.4
Federal excise tax.....	29.7
Manufacturers' price excluding excise tax.....	56.6
Wages—cigarette manufactures.....	200.0
Farm price, flue cured, burley, and Maryland.....	197.9

MARKETING ORGANIZATION, PRICES, AND TECHNOLOGY

Larger plants and firms

The concentration of ownership and control of food and fiber processing and distribution facilities is causing some major realignments in marketing practices and costs. Large-volume, multiple-unit retail organizations are becoming increasingly important in determining the grades, qualities, and conditions under which food can be bought from farmers and processed and sold to consumers (fig. 31). While the large-volume multiple-unit retail organizations came into existence because of opportunities to reduce costs by eliminating

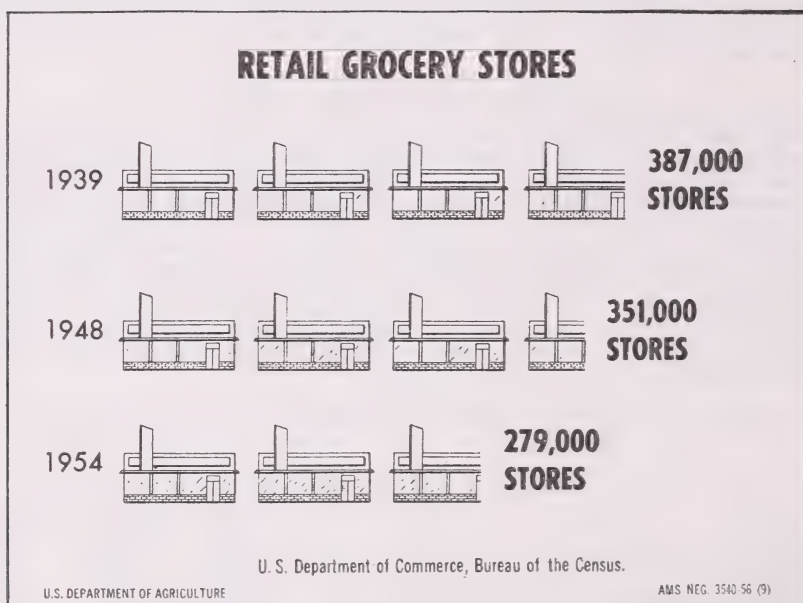


FIGURE 31.

certain types of marketing services and increasing the output of labor and capital through high-volume operations, they have encouraged the use of other practices that are of great importance in marketing. Of particular significance is the widespread use of Federal grades in place of proprietary brands for fresh meats, fruits, and vegetables.

The trend toward the growth of larger processing and distribution facilities, which depends on high-volume operations, has been encouraged no doubt by the rapid rise in the amounts of capital required for plants, stores, and facilities, by collective bargaining, and by increased importance of promotional expenditures. Small-scale operators have adopted various promotional schemes to compete with large-scale operators. One of the more important schemes has been food trading stamps. Because of the acceptability and appeal of trading stamps to consumers, all types and sizes of retail stores are now using them. The competitive effect of the stamps on marketing practices and costs has been especially great since 1954. As a result, the Agricultural Marketing Service is now studying a number of new problems that have arisen as a result of the widespread use of stamps.

Prices and margins

Over a longer period, the margin tends to parallel the costs of marketing, but changes in monthly farm-retail price spreads may sometimes show little correspondence to changes in marketing costs. This is particularly true for meat products, eggs, and fresh fruits and vegetables for which rapid fluctuations in supplies and prices are not uncommon.

Furthermore, marketing margins for individual products do not always follow the general trend. Margins for individual products are more variable than those for product groups and may not be closely related to the costs of marketing the specific product. Retailers, wholesalers, and other multiproduct marketing firms tend to look upon their entire organization as a unit. They contend that it is meaningless to attempt to explain the margin for any one product or group of products on the basis of costs because pricing policies must be based on net returns from the sale of all products. We are finding, therefore, that food wholesalers and retailers are tending to "load" a fixed dollar-and-cents handling charge on each item regardless of upward or downward changes in their buying prices. This pricing policy is becoming more pronounced with the introduction of guaranteed weekly wages, social security, fringe benefits, and heavier investments in fixed and working capital. All such fixed charges tend to encourage full-volume operations and an intensification of sales effort as ways of holding down costs per unit.

Technology

Technological developments in food processing and distribution by their very nature are almost impossible to predict over any long period. But as they do have profound effects on agricultural production and consumer demand as well as marketing, the potential effects of technological innovations need continual appraisal. Among these are automation, improved work-handling methods, radiation sterilization, and freezing for preserving perishable foods. Like many other potential developments, radiation sterilization may seem quite remote at present but, if perfected, it would have far-reaching effects on marketing practices and costs.

Because of the growing importance of technology, mergers, size of business, wages, volume, capital requirements, and sales promotion expenditures on marketing practices and costs, the Agricultural Marketing Service has started some research in each of these areas to help to explain the changes taking place in the cost of marketing farm products.

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